ALERT! ALERT! ALERT!

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ALERT #94

TO: Department Controllers, Fiscal Officers and Other Interested Parties

FROM: Clifford W. Hall
State Controller

DATE: August 15, 1996

SUBJECT: *Temporary Rules Change Maximum Meal Reimbursement Rate*
Fiscal Rule Hearing Planned
FY96 COFRS Close a Success
Pass Through Grant Contracts
Tax Guide for Settlement Awards
Technical Corrections to the Suggested Language for Pension Footnote Disclosure
Taxability of Exemplary Service Awards for State Employees

Temporary Rules Change Maximum Meal Reimbursement Rate

The new Fiscal Rules available through Juniper Valley (commodity no. 61582501005) will reflect meal maximums (Appendix A) different from those discussed at the recent Fiscal Rule hearing. These meal maximums will become effective September 1, 1996 pursuant to an emergency temporary rule. The most notable change is the reduction of the authorized maximum for Denver and the surrounding counties from $38 to $34 per day. You will also note that Telluride has been recognized as a high cost area at $34 per day. Formal adoption of a permanent rule for meal maximums will occur in mid-October. Questions about this action may be directed to Dennis Wolfard at (303)866-3895.

Fiscal Rule Hearing Planned

Several changes to the Fiscal Rules are being considered that will take effect on December 1, 1996. Notice of hearing on these items must be filed by August 31, 1996. If you have an item you would like considered, please contact Dennis Wolfard at (303)866-3895.

FY96 COFRS Close a Success

All indications are that the books for FY96 closed on August 2, 1996 with no material problems. Thanks to everyone for all their hard work. The successful result reflects a lot of thought on your part and good planning. Be sure to send in your suggestions for improvements for next year on the annual survey which will be out soon.

Pass Through Grant Contracts

The State Auditor's Office has requested that pass through grant contracts be identified separately as a specific type of contract because of the federal reporting requirements. A new type of contract has been added to the definitions of types of contracts in the CLIN table instructions and to the CONT table. This new type of contract is identified as a type C1 "Pass Through Grant Contract". Previously these contracts were included in the definition of a type A3 "Purchased Service Contract".

In order to have a pass through grant contract there must be a recipient - subrecipient relationship between a state agency and another state agency or entity. The following are some examples of typical recipient - subrecipient relationships:

- A state department of education receives federal assistance, which it disburses on a formula or other basis, to local school districts within the state.

- A regional planning commission receives federal funds for food programs for elderly and low-income individuals. These funds are dispersed to not-for-profit organizations to support their food programs.

- A state department of social services receives federal funds, which are dispersed to county governments.

There are other indications that a contract between a state agency and another entity is possibly a pass through grant contract. Here are some questions that an agency should consider when making a determination of the type of contract they are signing:

? Is your agency receiving either goods or services in exchange for the funds being provided to the other entity? If your agency is receiving goods or services the relationship is one of purchaser-vendor not recipient-subrecipient.

? Is the other entity providing any funds to match the funds being provided by your agency? If they are, it is probable that a recipient-subrecipient relationship exists and the contract is a pass through grant contract.

Questions about use of the new contract type may be directed to Phil Holtmann at 866-3809.

Tax Guide for Settlement Awards

In response to inquiries, the State Controller's Office has prepared a "Guide for Tax Reporting and Withholding of Settlement Awards" This guide provides the State Controller's policy for federal income tax reporting and withholding for settlement awards. Settlement awards may include claims by individuals for physical or property claims or for personal injury. Use of this Guide is mandatory for state agencies and institutions reporting income and withholding taxes via the state's financial system (COFRS) and payroll system (CPPS). A copy of the Guide has recently been provided to department controllers, personnel administrators, payroll officers and primary contract delegates of the State

Controller. Contact Jody Pyott at 866-3814 or e-mail to jody.pyott@state.co.us for a copy of the Guide.

Technical Corrections to the Suggested Language for Pension Footnote Disclosure

The following paragraph under Note A. Plan Description presented in Alert #93 should be changed: (additions in bold, deletions in strike through font)

Administration of the Plan
The plan is ~~an agent multiple employer plan~~ administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, **and includes the State Division Trust Fund (established in 1931), the School and Municipal Division Trust Funds (1944), and the Judicial Division Trust Fund (1949). The state division, as well as the other divisions, includes employers that are not part of the state's reporting entity, and thus, the plan is a cost sharing multiple employer plan. While** ~~R~~responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA, ~~C~~changes to ~~the plan requires~~ **any of the plans require** legislation by the General Assembly. **Therefore, these notes include the additional disclosures required of a sole or agent multiple employer plan.** The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

There are also two corrections to the following paragraph under Note C. Annual Pension Cost.

Significant Actuarial Assumptions
Significant actuarial assumptions used to determine the actuarial valuation include:

- A rate of return on the investment of present and future assets of 8.5 percent compounded annually;
- Projected salary increases of 5.5 percent compounded annually attributable to inflation and 0.0 to ~~12.9~~ **5.0** percent per year, depending on age, attributable to longevity or merit;
- An average retirement age ranging from 50 to 70 years;
- Life expectancy using the Colorado Projected Experience Table; and
- A maximum annual increase of 3.5 percent compounded annually for the ~~C~~cost of ~~L~~living ~~Stabilization Fund~~.

Questions about this change may be directed to Art Barnhart at (303)866-3850. A copy of the revised Alert #93 may be obtained by contacting Ginger Tate at (303)866-3281.

Taxability of Exemplary Service Awards for State Employees

Executive Order D0007-96 approved by Governor Roy Romer on July 11, 1996, provides for monetary and non-monetary incentives for state employees. Each state agency is to develop an incentive award program. Questions have been asked about the taxability of incentive awards provided to state employees.

Cash Awards
Cash awards regardless of dollar amount provided to employees for exemplary service, work performance or achievement are reportable for federal income tax purposes. These amounts must be captured by the state's payroll system and reported as compensation on the employee's W-2. Federal tax law requires income tax withholding for performance related cash awards.

Non-monetary Incentive Awards
Non-monetary awards not exceeding $100 in value given infrequently to an employee for performance related reasons are not reportable for federal income tax purposes, are not subject to withholding, and do not have to be captured by the state's payroll system. However, should the non-monetary award exceed $100 in value, then the value of the entire award is reportable for federal income tax purposes, is subject to withholding at the fair market value, and must be captured by the state's payroll system. A few exclusions exist for federal income tax reporting of non-monetary awards. One exclusion is a mass transit pass which does not exceed $60 per month, and another is employer paid parking which does not exceed $155 per month. Tickets to sporting or other events given infrequently (not season tickets) to an employee as an incentive award are not reportable or subject to withholding.

We strongly urge that monetary performance awards to state employees be made by state payroll warrant. Thus, it can be assured that these awards are properly reported for income tax purposes. Use or payment of cash rather than state warrants for a performance award should be discouraged because it raises concerns about access to cash, security over cash on hand and accountability for cash disbursed. Non-monetary awards exceeding $100 in value should be reported to the agency payroll officer for employee income tax reporting. An administrative process needs to be developed by those departments using this form of payment. Questions about taxability of performance awards should be directed to Phil Holtmann at (303)866-3809. Questions about the administrative process to capture performance awards for tax purposes should be addressed to the agency controller/payroll officer or personnel office.

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